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CANADIAN OCCIDENTAL PETROLEUM LTD.

OXY

1971 ANNUAL REPORT

CANADIAN OCCIDENTAL PETROLEUM LTD.

OFFICERS

ROBERT A. TEITSWORTH
Chairman of the Board

DAVID B. CHALMERS
President

ARMAND HAMMER
Chairman of the Executive Committee

HOWARD B. SHELTON
Vice-President

WILLIAM G. O'ROURKE
Secretary and Counsel

DAVID BERTRAM
Controller

PAUL C. HEBNER
Assistant Secretary

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The Annual and Special General Meeting of the Shareholders of the Company will be held at the Palliser Hotel, Calgary, Canada on May 1, 1972 at 11:00 a.m.

DIRECTORS

PAUL A. BAILLY
President, Occidental Minerals Corporation,
Wheat Ridge, Colorado

***ROBERT J. CAVERLY**
Executive Vice-President - Operations
Occidental Petroleum Corporation
Los Angeles, California

***DAVID B. CHALMERS**
President;
President and Chief Executive Officer
Petrogas Processing Ltd.;
Calgary, Canada

MARSH A. COOPER
President and Managing Director,
Falconbridge Nickel Mines Limited,
Toronto, Canada

***ARMAND HAMMER**
Chairman of the Board, President
and Chief Executive Officer
Occidental Petroleum Corporation,
Los Angeles, California

***J. HOWARD HAWKE**
President, The Glengair Group Limited,
Toronto, Canada

RONALD P. KLEIN
Vice-President and General Counsel
Occidental Petroleum Corporation
Los Angeles, California

LEO L. LeCLERC
Industrial Development Co-ordinator,
Edmonton, Alberta

J. ANGUS McKEE
Toronto, Canada

MORRIS M. MESSING
President, Hooker Chemical Corporation,
Stamford, Connecticut

***ROBERT A. TEITSWORTH**
Chairman of the Board;
Executive Vice-President,
Occidental Petroleum Corporation,
Bakersfield, California

*Member of the Executive Committee

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FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL	1971	1970
Revenues	$26,713,000	$23,854,000
Cash Income	$ 8,357,000	$ 5,916,000
Per Share†	$1.37	$1.08
Net Income	$ 3,517,000	$ 2,087,000
Per Share†		
Income Before Extraordinary Items	$ .62	$ .38
Extraordinary Items	$ (.04)	$ –
Net Income	$ .58	$ .38
Working Capital	$12,518,000	$ 8,442,000
Additions to Property, Plant and Equipment	$12,213,000	$ 5,467,000
Long-term Debt	$ 200,000	$ 7,371,000
Shareholders' Equity	$64,160,000	$46,762,000

†Based on weighted average number of shares outstanding.

SHAREHOLDERS AND EMPLOYEES	1971	1970
Number of Shareholders	3,983	4,370
Number of Shares Outstanding	6,752,241	5,456,436
Number of Employees	376	402

OPERATING	1971	1970
Production of Crude Oil and Natural Gas Liquids (barrels)	693,000	601,000
Pipeline Gas (thousands of cubic feet)	19,200,000	18,400,000
Sulphur Production (long tons)	257,000	266,000

CORPORATE HIGHLIGHTS

Reorganization

Canadian Occidental Petroleum Ltd. ("the Company") was formed on July 12, 1971, as a result of the amalgamation of Jefferson Lake Petrochemicals of Canada Ltd. with New Hooker Canada Limited, a subsidiary of Occidental Petroleum Corporation. New Hooker Canada Limited owned chlor-alkali plants at North Vancouver and Nanaimo, British Columbia, a metals finishing chemicals plant at Rexdale, Ontario, and a plastics plant at Fort Erie, Ontario. As part of the reorganization, the Company purchased all of the Canadian oil and gas properties of Occidental Petroleum Corporation for $7,000,000 and also retired $7,200,000 in notes and accrued interest payable to Occidental Petroleum Corporation and its subsidiary Hooker Chemical Corporation. In the reorganization, the Company issued 4,066,820 common shares to Occidental Petroleum Corporation and its subsidiaries which now own 82% of the Company's common shares.

Dramatic Increase in Gas Prices

As a result of an arbitration award announced in December, the Company, through its 31% owned affiliate Petrogas Processing Ltd., established a record price for natural gas in Western Canada. This favourable award is an important step towards establishing realistic field prices for natural gas in Western Canada recognizing its commodity value as a premium fuel and feed stock.

Sale of Coleman Plant

In June, the Company disposed of its sulphur recovery plant at Coleman, Alberta, for a cash consideration of $780,000. This operation had become marginal due to depressed sulphur prices. Although the plant was sold for less than its book value, the sale provided the Company with additional funds to expand its oil, gas and chemical operations.

Purchase of Oil Properties

In December, the Company completed the purchase of interests ranging from 50% to 100% in ten oil wells in the Alida and Warmley Fields of Saskatchewan. This acquisition will add approximately 370 barrels per day of light crude oil production effective January 1, 1972.

Expansion of North Vancouver Chlor-Alkali Plant

During the year, the Company commenced expansion of its chlor-alkali plant in North Vancouver, British Columbia in order to meet increased customer demand. This expansion will increase production capacity of chlorine from 330 tons to 395 tons per day and of caustic soda from 363 tons to 434 tons per day. Construction is proceeding on schedule and is expected to be completed in the fall of 1972.

OXY

TO THE SHAREHOLDERS:

The year 1971 was one of significant achievement for your Company. The most important event was the amalgamation on July 12 of Jefferson Lake Petrochemicals of Canada Ltd. with New Hooker Canada Limited, a subsidiary of Occidental Petroleum Corporation, to form Canadian Occidental Petroleum Ltd. In the amalgamation, Jefferson Lake's oil and gas operations were combined with Occidental's Canadian chemical operations which included the manufacture and marketing of chlorine, caustic soda, metals finishing chemicals and a wide variety of resins and molding compounds. Included in the acquisition was a staff of 200 highly qualified employees who operate the chemical plants at North Vancouver and Nanaimo, British Columbia, and Rexdale and Fort Erie, Ontario, and market the products produced at these plants. As part of the reorganization the Company purchased all of Occidental's Canadian oil and gas properties and also retired $7,200,000 in notes and accrued interest payable to Occidental and its subsidiary.

The results of this diversification have been most gratifying. On the basis of accounting for the amalgamation as a pooling of interests, the Company recorded cash earnings of $8,357,000 or $1.37 per share for a 27% increase on a per share basis over the $5,916,000 or $1.08 per share for the corresponding period of 1970. Total revenues for 1971 were $26,713,000, an increase of $2,859,000 over 1970. Net income amounted to $3,517,000 or 58 cents per share for a 53% increase on a per share basis over the $2,087,000 or 38 cents per share earned in 1970.

Further diversification was achieved early in 1972 when your Company purchased all of the assets of Occidental Minerals Corporation of Canada for $240,555. These properties included mining claims in New Brunswick, Saskatchewan and the Yukon upon which further exploration work will be carried out this year. The staff of qualified geologists and technical personnel who previously carried on Occidental's minerals exploration program in Canada now comprise the Minerals Division of this Company and will direct its future metals exploration activities.

These important steps have culminated in establishing a diversified Company with a broad earnings base and healthy balance sheet which should enable the Company henceforth to participate competitively in the important oil, gas and minerals potential in Canada. In this regard, the Company plans to pursue both an active exploration program in the field of natural resources as well as the continued acquisition of oil and gas producing properties. The North American continent is facing continued shortages of energy, and the Company anticipates an increasing strong demand for petroleum and natural gas with resultant improvement in prices for these commodities.

In addition, the Company plans to continue to devote efforts to maximize the earnings potential of its chemicals operations. Assuming a modest economic recovery in Canada and the United States in 1972, the Company projects moderate increases in sales for all its chemical products. The completion of the current expansion of the North Vancouver chlor-alkali plant is timed to meet increased customer requirements in the third quarter of 1972.

The management views 1971 as an important milestone in the growth of the Company and believes that the achievements to date will provide a favourable springboard toward attaining its objectives of future growth.

The Company is pleased to acknowledge the contributions and efforts of its employees, who played such a key role in concluding a successful year. In addition, the Company is grateful to its shareholders who have supported the management of the Company with their loyalty and confidence.

Respectfully submitted,

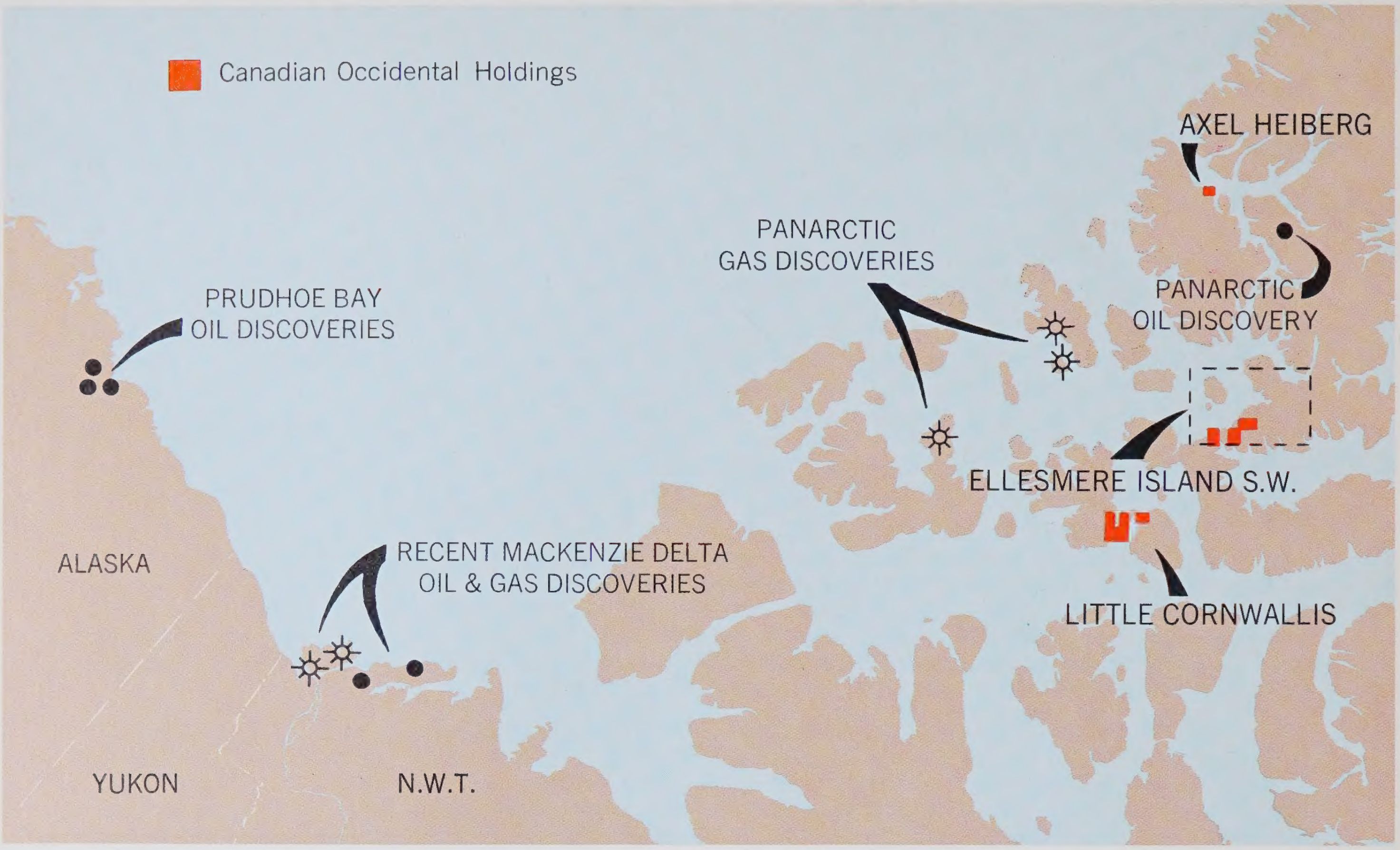
Robert A. Teitsworth

ROBERT A. TEITSWORTH
Chairman of the Board

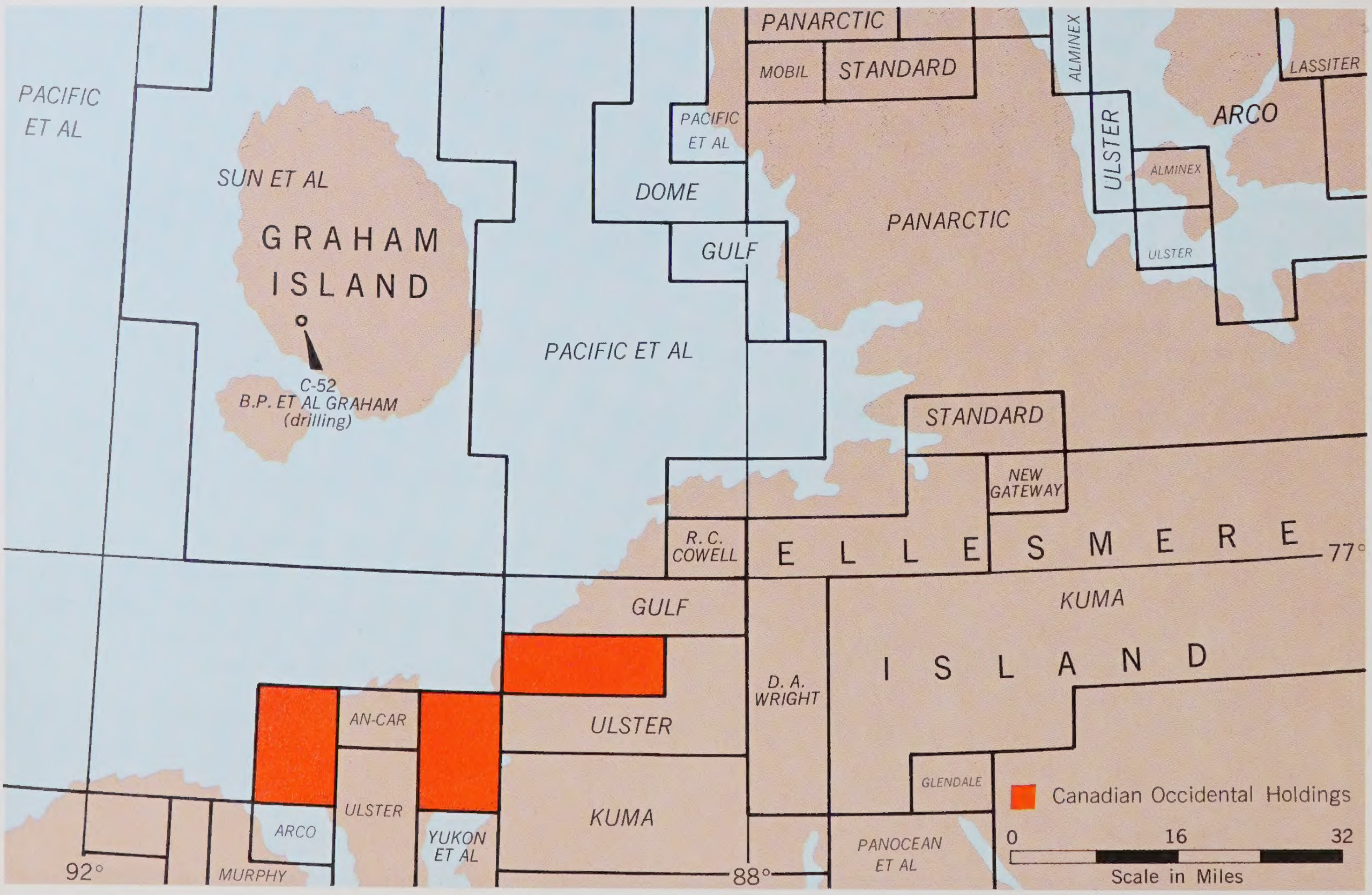
David B Chalmers

DAVID B. CHALMERS
President

Calgary, Alberta
March 27, 1972



Canadian Occidental Holdings
AXEL HEIBERG
PANARCTIC
GAS DISCOVERIES
PANARCTIC
OIL DISCOVERY
PRUDHOE BAY
OIL DISCOVERIES
ELLESMERE ISLAND S.W.
ALASKA
RECENT MACKENZIE DELTA
OIL & GAS DISCOVERIES
LITTLE CORNWALLIS
YUKON
N.W.T.



PANARCTIC
ALMINEX
LASSITER
MOBIL
STANDARD
PACIFIC
ET AL
PACIFIC
ET AL
ULSTER
ARCO
SUN ET AL
DOME
ALMINEX
GRAHAM
ISLAND
GULF
PANARCTIC
ULSTER
C-52
B.P. ET AL GRAHAM
(drilling)
PACIFIC ET AL
STANDARD
NEW
GATEWAY
R.C.
COWELL
E L L E S M E R E
77°
GULF
KUMA
D. A.
WRIGHT
I S L A N D
AN-CAR
ULSTER
GLENDALE
ULSTER
ARCO
YUKON
ET AL
KUMA
PANOCEAN
ET AL
92°
MURPHY
88°
Canadian Occidental Holdings
0
16
32
Scale in Miles

OIL AND GAS OPERATIONS

LAND

The following table sets forth the Company's land holdings by area at December 31, 1971, with comparative figures for 1970.

The increase in gross acreage was due primarily to the purchase of 51 Crown Petroleum and Natural Gas Reservations comprising 1,771,335 acres of exploratory lands in northern Alberta. The increase in net acreage largely resulted from the acquisition of Occidental's entire interest in 5,277,922 acres of exploratory lands in Western Canada which had previously been jointly owned by Jefferson Lake and Occidental.

	1971		1970	
Province/Area	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	3,065,461	2,674,697	1,057,648	554,190
Arctic Islands	2,451,881	2,233,090	2,428,947	1,112,625
British Columbia	8,929	3,700	9,569	2,042
East Coast	704,338	—	704,338	—
Northwest Territories	419,120	209,560	419,120	104,780
Saskatchewan	1,363,277	901,695	2,019,069	805,735
	8,013,006	6,022,742	6,638,691	2,579,372

Note: (a) Net figures exclude working interests owned by others.

(b) All totals include Permits or Reservations of which from 25% to 50% may be retained as leases.

(c) The Company's interest in the 704,338 acres in the East Coast is a 1.75% gross overriding royalty.

EXPLORATION

During the year, the Company participated in the drilling of 15 exploratory wells. In addition, 14 wildcat wells drilled by other companies under various farmout and option agreements partially evaluated Company lands.

In Saskatchewan, the Company participated in the drilling of 10 exploratory wells which resulted in the discovery of one oil well, one suspended oil well and one marginal gas well. Stratigraphic testing in the general North Hoosier-Beaufield area of southwestern Saskatchewan yielded the discovery of a small, heavy gravity, Bakken sand oil pool and a single well Blairmore sand gas pool. Bakken oil was also discovered at Plover Lake, but the well was suspended because of the difficulty in producing the 9° API gravity oil by conventional methods.

Seven additional wells drilled by other companies pursuant to farmout arrangements resulted in two Mississippian oil wells in southeastern Saskatchewan. One of these wells was on Company lands and the other immediately offset Company lands.

Although a well drilled to test the Winnipegosis Fringing Reef in southwestern Saskatchewan was abandoned, the geological information obtained led the Company to purchase a 13,600 acre Reservation at a Crown Sale. Geophysical work was carried out on this block late in the year and further drilling is expected in the spring of 1972.

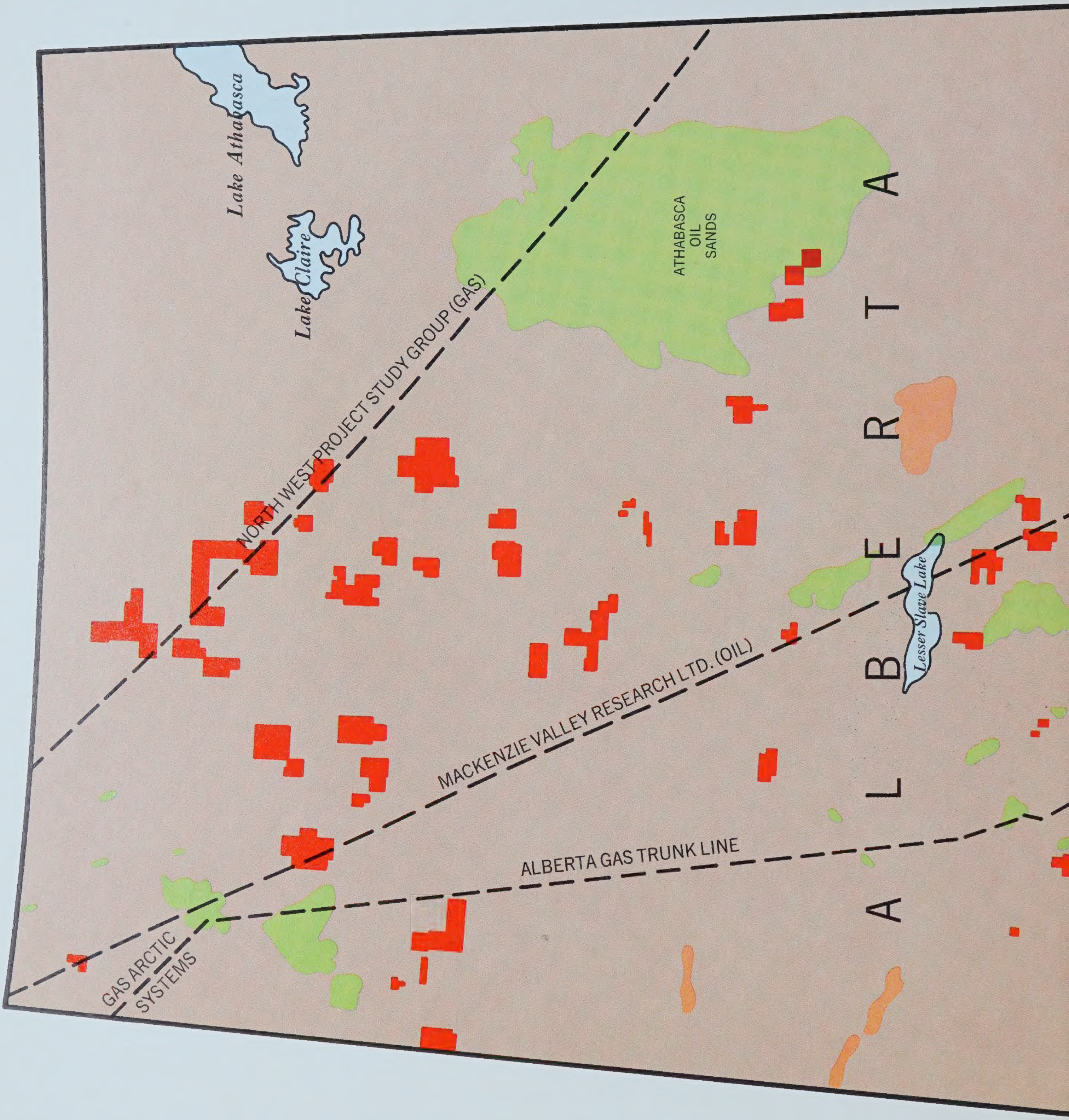
In southeastern Alberta, the Company carried out a shallow gas exploration program leading to the acquisition of 172,956 gross acres (137,825 net acres) of land. During the year, the Company directly participated in the drilling of three wells and a further six wells were drilled by other companies on these properties. Although no discoveries have resulted to date, the program is being continued with four additional wells to be drilled by other companies early in 1972.

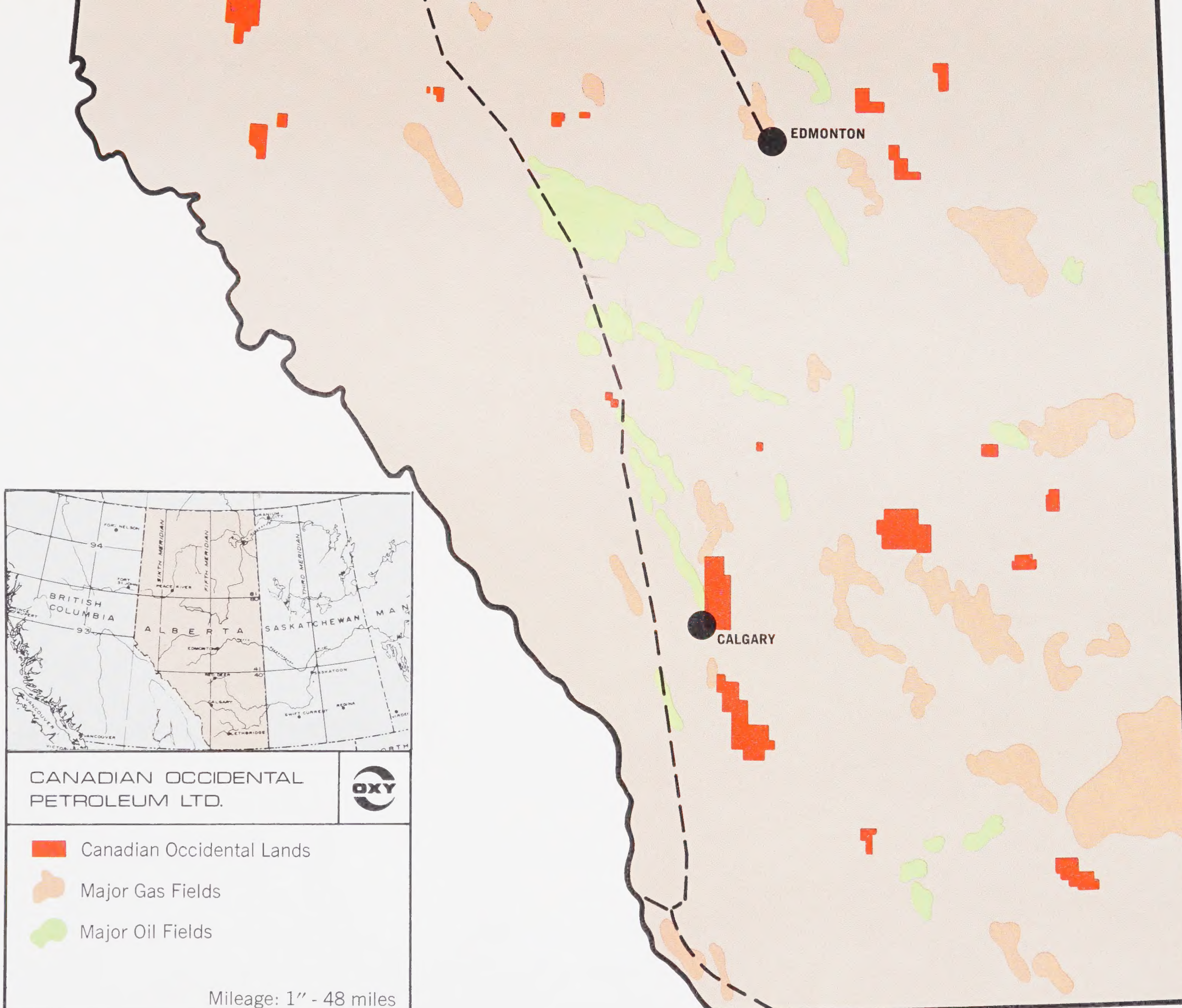
During the last half of the year the Company concentrated its exploration effort in northern Alberta where older Paleozoic age formations offer the main potential. Geological study and seismic interpretation of Lower Devonian Fringing Reef and Cretaceous-Mississippian prospects led to the acquisition of 166,250 acres of highly prospective land and an additional 1,560,000 acres of lower priced, trend acreage. These lands are in the general Peace River-East Rainbow-Senex area where industry exploratory activity increased greatly during the second half of the year. The Company has recently farmed out 64,000 acres of these lands to a major oil company which is committed to carry out a seismic program.

The Company joined with seven other land holders in the drilling of a 1,775 foot Precambrian test well on Rowley Island in the Foxe Basin area of the Canadian Arctic. The Company's participation in the well, and in the lands upon which it was drilled, was 34.18%. The well penetrated a thin section of Lower Paleozoic strata, encountering several hundred feet of high porosity sand, but without hydrocarbon shows.

Following the reorganization, the Company commenced evaluating various possible means of participating in the current exploratory activity in the so-called frontier areas of Canada. These studies were continuing at year-end. The Company's acreage onshore and in the coastal waters of Little Cornwallis, Axel Heiberg and Ellesmere Islands in the Arctic offers increasing exposure to the escalating activity in the high north. The acreage on the southwest portion of Ellesmere Island has especially interesting geological possibilities and the Company is endeavoring to activate a drilling program by third parties in this area in 1972.

The Company entered into a Plains Coal Exploration venture with three other partners during 1971. A program of mapping and the drilling of 256 test holes established some 38 millions tons of strippable bituminous coal under the syndicate's 6,000 acres of 21 year Crown leases. The Company has an 18.75% interest in this venture.


Lake Athabasca
Lake Claire
NORTH WEST PROJECT STUDY GROUP (GAS)
ATHABASCA OIL SANDS
ALBERTA
Lesser Slave Lake
MACKENZIE VALLEY RESEARCH LTD. (OIL)
ALBERTA GAS TRUNK LINE
GAS ARCTIC SYSTEMS


EDMONTON
CALGARY
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
CANADIAN OCCIDENTAL
PETROLEUM LTD.
Canadian Occidental Lands
Major Gas Fields
Major Oil Fields
Mileage: 1″ - 48 miles


Wellhead facilities in the Crossfield field near Calgary, Alberta.

DEVELOPMENT

Acquisitions

As part of the reorganization, the Company purchased all of the Canadian oil and gas properties of Occidental Petroleum Corporation. Although these properties comprised mainly exploration acreage, some producing properties were acquired. These included interests in two gas wells in British Columbia, one oil well in Saskatchewan and three shut-in gas wells in Alberta.

In December the Company purchased interests ranging from 50% to 100% in ten producing oil wells (7.5 net wells) in the Alida West and Warmley Fields, Saskatchewan. This acquisition will add an estimated 370 barrels per day of light gravity crude oil to the Company's production during 1972.

Field Operations

The Company's major operating interest continues to be centered in the Crossfield gas field located about seven miles northeast of Calgary. The Company is operator and owns a 35.02% working interest in 29 wells in the Calgary Crossfield Unit, a 23.23% working interest in 12 wells in the Calgary Elkton Unit, a 37.73% working interest in two wells in the Basal Quartz Unit and up to a 25% working interest in eight wells located outside the units. No new wells were drilled in the field during the year as well capability was adequate to meet the sales demand for pipeline gas.

The Company and its partners laid a pipe line to connect a Basal Quartz gas well in the Crossfield East Field to the main pipe line transmission system. The Company has a 12% working interest in this well which went on stream in March, 1971.

Two development wells drilled at South Okotoks and Morinville, Alberta, in an attempt to extend the pool limits, proved unsuccessful and subsequently were abandoned.

At Hoosier, Saskatchewan, a development well drilled offsetting the Bakken sand discovery well proved dry and was abandoned. The discovery well was completed and is producing heavy gravity oil.

At Sandhills, Saskatchewan, two further evaluation gas wells were drilled and completed in the Milk River formation. These wells were cased, perforated and fractured, a completion technique significantly different from that used in our multi-well evaluation program of the prior year. These new wells were placed on production during December and initial results give fairly optimistic prospects for the development of this area.

Production

Field gas production from Company-operated properties averaged 287 million cubic feet per day during the year, an increase of about seven million cubic feet per day from that produced in 1970. This increase occurred primarily as a result of higher sales demand in the Crossfield Field area. Approximately 81 million cubic feet per day of field gas was produced for the Company's account from its operated and other non-operated properties during the year.

The Company's crude oil production increased by 22% over the previous year and amounted to 212,000 barrels. No production from our year-end acquisition of the Alida and Warmley Field properties is included in this volume. The Company now has oil producing properties in ten fields, six of which involve Company operations.

Reserves

At year-end, the Company's working interest share of reserves of pipeline gas, natural gas liquids, crude oil and sulphur were estimated to be as follows:

Pipeline Gas – 293 billion cubic feet of proven pipeline gas reserves after deducting 19.2 billion cubic feet produced during the year. Probable additional reserves are estimated at 23 billion cubic feet.

Natural Gas Liquids – 5,744,000 barrels of proven reserves after deducting 481,000 barrels produced during the year. Probable additional reserves are estimated at 405,000 barrels.

Crude Oil – 2,190,000 barrels of proven reserves after deducting 212,000 barrels produced during the year. This reserve figure includes the Company's share of reserves of the recently acquired Alida West and Warmley Field properties. Probable additional reserves are estimated at 2,989,000 barrels.

Sulphur – 3,488,000 long tons of proven reserves after deducting 180,000 long tons produced during the year. Probable additional reserves are estimated at 250,000 long tons. These figures do not include any sulphur reserves for the Peace River plant where production amounted to 66,000 long tons for the year from non-owned gas delivered to the Company operated facility.

GAS PROCESSING AND SULPHUR RECOVERY PLANTS

The gas processing and sulphur recovery operations of the Company are conducted in both Alberta and British Columbia.

In Alberta, the Company has a 30.9% interest in the major gas processing complex owned by Petrogas Processing Ltd. This plant, located adjacent to the City of Calgary, has the capacity to produce 215 million cubic feet per day of specification pipeline gas and up to 2,000 long tons per day of high purity elemental sulphur. Significant quantities of propane, butanes and condensate are also recovered and processed to marketable products. The management, supervisory and technical personnel needed to operate the complex are provided by the Company.

A progressive upgrading of the various plant facilities has been carried out during the past few years resulting in improved operating efficiencies and product yield. Favourable operating economies have also been achieved.

During the year, a major addition to the plant facilities was commenced involving the application of first and second stage compression to the raw gas feed of the processing plant. Phase I of the project was operationally complete at the end of 1971. Phase II of the compression program is currently in the engineering and procurement stage and is scheduled for completion to meet the peak load requirements of the 1972-73 winter season. The capital employed in this expansion will be provided initially by Petrogas Processing Ltd. from existing funds. Ultimately, the cost of the compression facilities will be recovered from the working interest owners of the raw gas who are assessed a processing charge proportional to their utilization of the gas processing facilities.

The Company also owns working interests in gas processing operations conducted by others in the Wimborne and Crossfield East gas fields of Alberta.

At Taylor, British Columbia, the Company operates the wholly-owned Peace River sulphur recovery plant which has a design capacity of 325 long tons per day. The hydrogen sulphide feed for this operation is obtained from an adjacent gas treating plant which processes gas from extensive gas fields.

Union agreements for the gas and sulphur plants were renegotiated during 1971 and will remain in effect through to mid-1973. It is fully anticipated that the stable management-employee relationship which has been a significant feature of plant operations in previous years can be maintained in future years.

In June, the Company sold its sulphur recovery plant at Coleman, Alberta, for a cash consideration of $780,000. Depressed sulphur prices had made continued operation of this facility marginal. Although the plant was sold for less than its book value, the sale provided the Company with additional funds to expand the growth areas of its business. Notwithstanding the sale of the plant, the Company will continue to market all sulphur produced from the plant, for which service it will receive a commission.

The accompanying table sets forth the Company's share of plant production during the year with comparative data from the previous year. Record production was established for pipeline gas, propane, butanes and condensate.

Company's Share of Plant Production

Product	**1971**	**1970**
Sulphur (long tons)		
Coleman Plant	*10,478	24,124
Peace River Plant	66,474	56,960
Petrogas Plant	175,298	180,350
Other Plants	4,970	4,125
	257,220	265,559
Pipeline gas, (millions of cubic feet)	19,189	18,355
Propane, (barrels)	122,939	88,333
Butanes, (barrels)	92,179	79,037
Condensate, (barrels)	265,818	260,138

*5½ months' production.

Gas Sales

The Company's share of gas sales from the Crossfield Field will benefit from increased prices commencing January 1, 1972, as a result of an arbitration award released on December 20, 1971. This award represents the successful conclusion of lengthy negotiations to redetermine the price to be paid for gas sold under the contract between Petrogas Processing Ltd. and the major gas purchaser.

In their majority award, the arbitrators determined that the price will be 20.5 cents per Mcf in 1972, an increase of 3.25 cents per Mcf over the previous contract price for 1972. The price will escalate a further one cent per Mcf each year thereafter to 23.5 cents per Mcf for 1975, which is the last year of the current price rede-

termination period. An additional 0.75 cents per Mcf will be added to the above prices in each of the years 1972 through 1975 to provide for the increase that the arbitrators deemed appropriate for 1971. A further adjustment to price, amounting to about 0.4 cents per Mcf, was awarded to more accurately reflect the delivered heating value of the gas.

In total, the effective price will be about 21.65 cents per Mcf in 1972, an increase of some 4.4 cents per Mcf. By 1975 the effective selling price of the gas will have escalated to approximately 24.7 cents per Mcf. The new gas price is expected to increase the Company's gross cash revenues, before royalties, by approximately $600,000 in 1972 and by increasing amounts in subsequent years.

This favourable arbitration award is a dramatic breakthrough in the price of natural gas in Western Canada, and is an important step towards establishing prices for natural gas consistent with its commodity value.

Sulphur Sales

The world-wide imbalance between the supply and demand for elemental sulphur continued through 1971. Due to the oversupply of sulphur the Company's sales volume declined about 12% from the preceding year.

Severe competition, primarily in the overseas market, plus increased land and ocean transportation costs, contributed to a further erosion of the average selling price for sulphur at the Company's plants to $7.53 per long ton. This compares with an average plant net price of $9.30 per long ton for the preceding year.

The accompanying table indicates the sulphur sales with comparative data from the previous year.

Company's Share of Sulphur Sales (long tons)

	1971	1970
Petrogas Plant	124,256	144,691
Peace River Plant	52,838	43,662
Coleman Plant	10,828	23,994
Other Sources	—	911
Total	187,922	213,258
Distribution		
Off-shore sales	70,774	87,365
North American sales	117,148	125,893

Although the sales volume declined during the year the marketing groups, through an aggressive approach, managed to retain a significant presence in the Company's historically established marketing areas both at domestic and international levels.

The Environment

The management of the Company continues to devote considerable time and financial resources towards improving the operational efficiency of its processing units by methods which will assist the Company in meeting the clean air and water standards established by various governmental authorities. The latest technological developments in plant operations and pollution control are continually being evaluated, as they become available, to determine their possible application to the Company's operations.

In the Oil and Gas Division, one of the most interesting activities of the many in progress is an operations orientated research program which has been an on-going effort for the past fourteen months. The objective of this program is to improve operating efficiency at the Petrogas gas processing and sulphur recovery plant and thereby enhance resource conservation while improving ambient air quality. In late 1970, the Company's technical staff placed in operation a unique control package on three sulphur recovery units. The system, developed by the staff in conjunction with a leading contractor, provides closed loop control from inlet to outlet of the sulphur recovery units by using analytical data automatically measured with process chromatographs. The system has proved quite successful and has resulted in the emission of less sulphur dioxide into the atmosphere and improved product yield.

The Company's air quality monitoring system at the Petrogas plant, installed by authority of the Energy Resources Conservation Board, provides a continuous record of sulphur dioxide and hydrogen sulphide concentrations in the vicinity of the Plant. This monitoring program, believed to be the most comprehensive of any similar program in Alberta, has shown that ambient air quality generally exceeds the prescribed standards.

The Company also supports research at the University of Calgary and by independent consulting groups on many industry related problems having environmental implications.

Canadian Occidental's chlor-alkali plant at North Vancouver, B.C.

OXY

CHEMICAL OPERATIONS

HOOKER CHEMICALS DIVISION

In the reorganization, the Company acquired chlorine and caustic soda plants at North Vancouver and Nanaimo, British Columbia. These plants are now operated as the Hooker Chemical Division.

The North Vancouver plant is operating at its full capacity of 330 tons per day of chlorine and 363 tons per day of caustic soda. Plant capacity is currently being expanded to 395 tons per day of chlorine and 434 tons per day of caustic soda. Most of the chlorine and caustic soda is sold to the pulp and paper industry in Western Canada for pulp treatment and bleaching. The plant expansion will be completed by the fall of 1972 and will enable the Company to supply the requirements of two new pulp and paper mills.

The Nanaimo plant is operating at its full capacity of 100 tons per day of chlorine and 110 tons per day of caustic soda. Most of this production is delivered by pipeline to the adjacent major pulp mill complex.

Although the pulp and paper industry was affected by adverse business conditions in 1971, sales revenues from the two plants increased 12% over the previous year. Further improvement in sales of chlorine and caustic soda is expected in 1972.

The production cells to be installed in the North Vancouver plant during the current expansion will be equipped with metal anodes. These anodes, which are fabricated from titanium rather than the graphite previously used, are the most significant recent development in chlorine cell technology. Substantial savings in power and renewal costs are attainable through this change in design. At the Nanaimo plant, the new metal anodes are now being used in approximately one-half of the production circuit. A number of these cells are running at the highest production rate per cell yet achieved in any Hooker type cell in commercial use anywhere in the world.

In January, 1971, a new production unit for muriatic acid went on stream at the North Vancouver plant. This unit was designed to burn residual gas, a dilute chlorine gas stream otherwise of no commercial value, thereby achieving economic operation while eliminating a potential air pollution problem. Although the unit is small compared to the chlor-alkali facilities, it is of a size that enables the Company to supply muriatic acid to the mining and chemical industry in the area.

A new unit capable of producing 5,000 tons per year of high purity salt will go into production at the North Vancouver plant about May 1, 1972. This salt will be sold to a British Columbia pulp and paper company for use in the production of chlorine dioxide in a Hooker chlorine dioxide generating unit.

Much of the Hooker Chemical Division's success in marketing its products on the West Coast can be attributed to its expertise in the field of marine transportation of chemicals. Shown in the photograph on page 14 is the Company's specialty chemical barge "Metlakatla". This 272 foot barge can carry up to 5,000 tons of caustic soda and 900 tons of chlorine. Since 1967, the Metlakatla has provided regular service to a pulp mill customer at Prince Rupert, British Columbia.

In March, 1971 a new rail barge "Hyak King" was launched. This 228-foot barge is capable of carrying twelve 100-ton rail cars on the deck and 1,500 tons of liquid caustic soda in below-deck storage. This barge was designed to meet the specific requirements of the Hooker Chemical Division and has been leased to this Company for a term of five years.

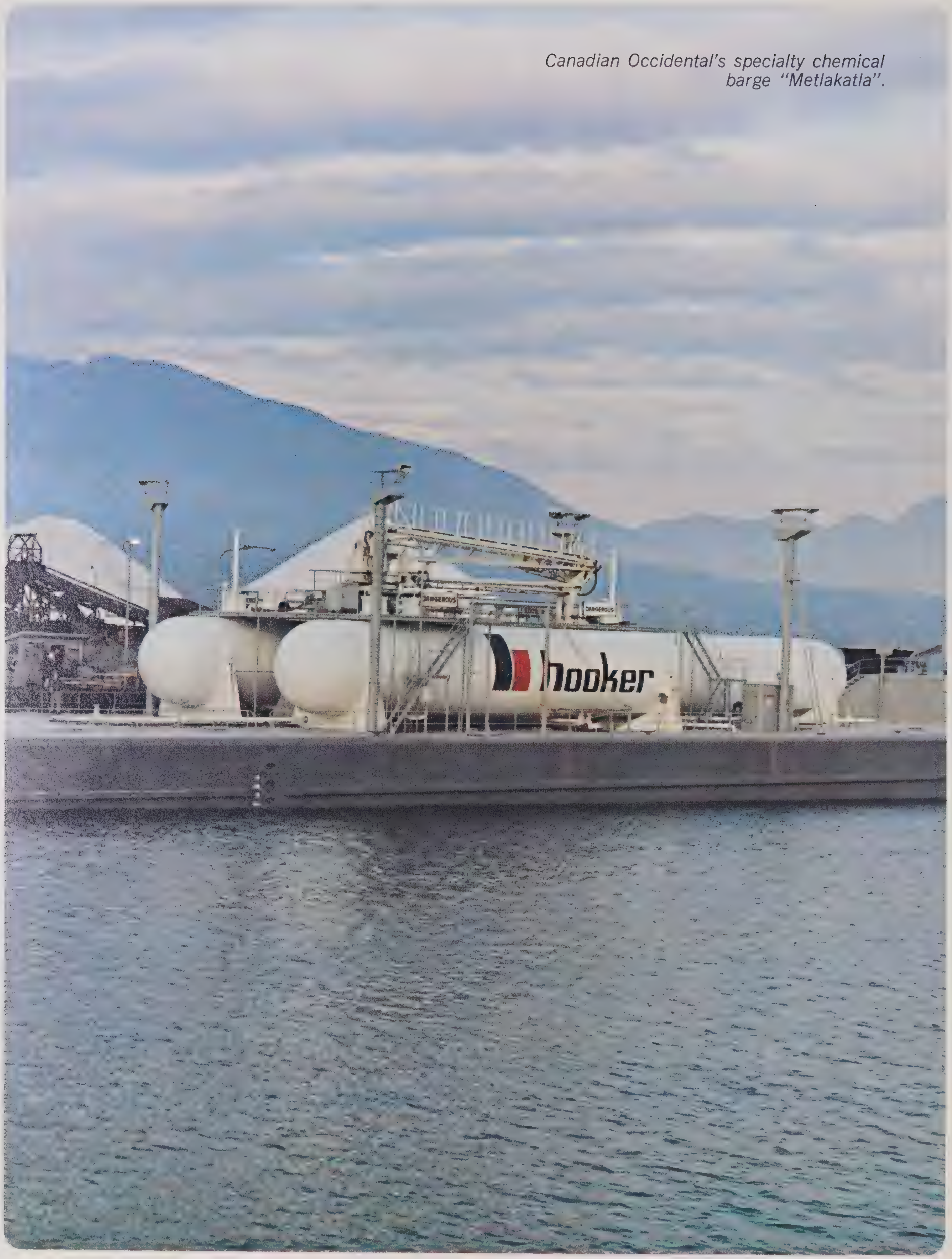
These two barges together with the Company's large chemicals storage terminal at Watson Island (near Prince Rupert, British Columbia) have enabled the Hooker Chemicals Division to provide better service to its customers at lower cost.

PLASTICS

The Company's wholly-owned subsidiary Hooker Chemicals (Nanaimo) Limited owns a plastics plant at Fort Erie, Ontario. This plant, which was completed in June, 1970, manufactures phenolic molding compounds and phenolic and polyester resins. These products are marketed under the trademark DUREZ® (Durable Resins) and are used in molding and fabricating a wide variety of plastic components and finished products for the automotive, electrical, construction, foundry, communications, insulation, rubber and appliance industries. Increased acceptance of Durez products throughout Canada led to an expansion of the Company's line of materials during the year.

New quality control equipment installed in the plant during the latter part of 1971 will enable the Company to produce a newly developed line of phenolic molding compounds for screw injection molding, one of the fastest growing segments of the thermoset molding industry. The first of these new materials will be introduced early in 1972. Durez thermoset plastics are plastics which will not melt once hardened.

As part of the Company's overall program for increased participation in the growing domestic market, initial production of fire-retardant HETRON® polyester resins is scheduled for early 1972.



Canadian Occidental's specialty chemical barge "Metlakatla".

Increased sales of plastics and resins were recorded during 1971, which was the first full year of operation of the Fort Erie plant.

METAL FINISHING

Our wholly-owned subsidiary Oxy Metal Finishing of Canada Ltd. was incorporated in 1971 to acquire an established metals finishing chemicals business previously operated by Hooker Parker (Canada) Limited, a subsidiary of Occidental. Included in the acquisition was a modern plant at Rexdale, Ontario. This subsidiary has two divisions — the Parker Division and the Sel-Rex Division.

Parker Division

The Parker Division, which commenced business in Canada in 1948, is the leading supplier of chemicals for producing zinc phosphate, iron phosphate and oxide coating on steel, aluminum and galvanized surfaces prior to the application of paint. Zinc phosphate coatings are also used as a base for lubricants to aid in the drawing of steel tubing. In addition, Parker produces a complete line of cleaners, paint spray booth compounds and paint strippers.

The Parker Division serves a multitude of industries including automotive, appliance, office furniture, fastener, coil coating, tube and wire drawing. Wherever there is an industry need for cleaning, coating or metal treatment, there is a Parker product to do the job. The success of the Parker Division lies in its extensive research facilities, development laboratories, expert engineering staff, competent field representatives, customer service laboratories and testing facilities.

Parker has two new developments, PARKERIZING 200 plus PARCOLAC® 2946 which far surpassed PARCO® Compound as a standard rust resistant treatment for iron and steel surfaces. Parkerizing 200 has the same simple operating specifications, uses the same equipment as Parco Compound and is easier to control. The difference is that Parkerizing 200 plus Parcolac 2946 produces a finish that is two to three times more corrosion resistant.

Total sales of the Parker Division for 1971 increased 17% over the previous year. The Parker Division is expected to have favourable operating results during 1972.

Sel-Rex Division

The Sel-Rex Division is a supplier of electroplating processes, accessory chemicals and equipment to the metal finishing industry. Since the inception of Sel-Rex in Canada in 1965, this division has had a consistent development and growth pattern which was reflected by another record sales year in 1971. Sel-Rex is the acknowledged leader in the field of precious metals electroplating processes.

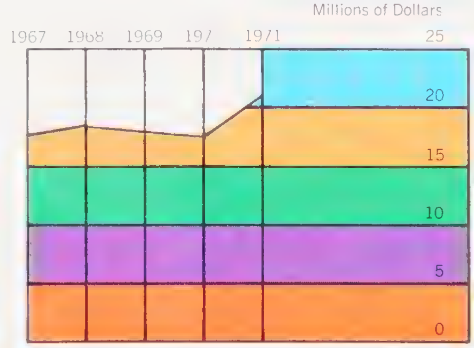
The first of two reactors for the production of potassium gold cyanide salts from raw gold went into operation in the summer of 1971. This equipment has not only quadrupled the Sel-Rex production capability, but also has substantially reduced manufacturing costs and labour. A Model AN-600 Betascope was also added to the testing equipment. This computerized instrument, which works on the principle of backscatter of Beta particles emitted from a radioactive source, enables a technician to determine within 7.5 seconds the thickness of a plated deposit on any given sample.

One of the Division's new developments is custom-made automated equipment designed to selectively gold plate specific areas of electrical contacts or connectors. This equipment has created a good deal of interest in the industry.

The Sel-Rex "Module-X" plating facility which consists of a series of unitized modular plating stations was put to good use during the past year by a local mint. A pre-production run of 4,000 sterling silver coins was gold plated in a BDT510 process utilizing the Sel-Rex equipment at the Rexdale plant for a period of two weeks.

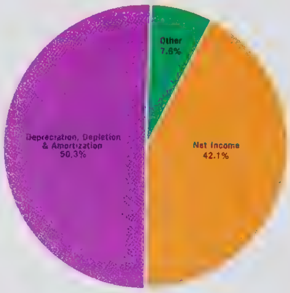
Total sales for 1971 increased 21% over the previous year. The prospects for continued good growth and further increased sales appear very promising for the Sel-Rex Division in the year 1972.

CHEMICAL OPERATIONS
GROSS REVENUES
Millions of Dollars

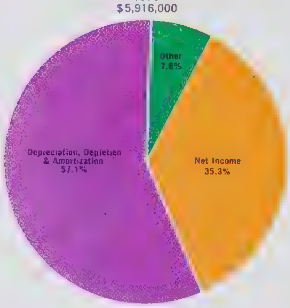


FINANCIAL REVIEW

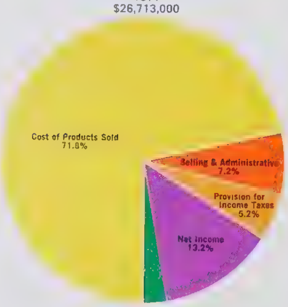
CASH INCOME
1971
$8,357,000



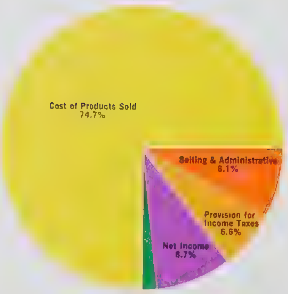
1970
$5,916,000



UTILIZATION OF REVENUES
1971
$26,713,000



1970
$23,854,000



The financial results of the Company give effect to the statutory amalgamation of Jefferson Lake Petrochemicals of Canada Ltd. and New Hooker Canada Limited. The amalgamation has been accounted for as a pooling of interests.

Earnings

Cash income from operations for 1971 amounted to $8,357,000 or $1.37 per share, an increase of $2,441,000 or 27% in the per share amount over the $5,916,000 or $1.08 per share in 1970.

Consolidated income, before the extraordinary item described below, reached $3,770,000 or $0.62 per share in 1971, an increase of $1,683,000 over the previous year's earnings of $2,087,000 or $0.38 per share.

Net income in 1971 includes an extraordinary write-off of $253,000 resulting from a loss of $494,000 on the sale of the Coleman sulphur plant and an exchange gain of $241,000 realized on the conversion into common shares of the 4½% Note payable to Occidental Petroleum Corporation. Net income after this extraordinary item was $3,517,000 or $0.58 per share.

Revenues

Revenues for 1971 were $26,713,000, an increase of $2,859,000 or 12% over the 1970 amount of $23,854,000. The increase in revenues resulted primarily from increased sales of chemical products—particularly chlorine and caustic soda.

The contributions to revenues are summarized below:

	1971	1970	Increase (Decrease)
Oil and Gas operations .	$ 5,747,000	$ 6,023,000	$ (276,000)
Chemical operations .	20,966,000	17,831,000	3,135,000
	$26,713,000	$23,854,000	$2,859,000

Expenses

Total expenses for 1971 increased $1,358,000 or 7% over 1970. The increase largely reflects product costs attributable to additional sales volumes, reorganization expenses and an increase in the charge for depletion, depreciation and amortization as a result of the increased investment in oil and gas properties during the year. Interest charges were significantly reduced during 1971 as a result of the conversion of long-term debt into common shares.

Changes in Financial Position

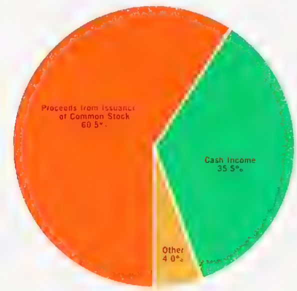
During 1971, working capital increased by $4,076,000 to $12,518,000 with $1,990,000 of this increase occurring in cash and marketable securities. The remainder of the working capital increase was mainly attributable to a reduction in the current portion of long-term debt and accrued interest payable as a result of converting certain notes payable to Occidental Petroleum Corporation and its subsidiary into common shares of the Company.

Capital expenditures for 1971 amounted to $12,213,000, an increase of $6,746,000 over the previous year. Major additions in 1971 were the acquisition of the Canadian oil and gas properties from Occidental Petroleum Corporation and the purchase of producing oil properties in the Alida and Warmley fields of Saskatchewan. The following table sets forth a summary of capital expenditures:

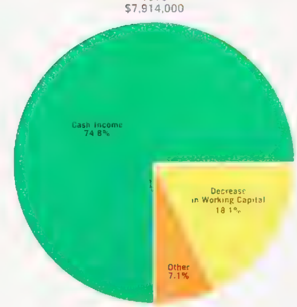
	1971	**1970**
Oil and Gas Operations		
Exploration and production, including purchase of producing properties . . .	$ 4,505,000	$2,236,000
Acquisition of Occidental's Canadian oil and gas properties	7,000,000	–
	$11,505,000	$2,236,000
Chemical Operations . . .	708,000	3,231,000
	$12,213,000	$5,467,000

Long-term debt was reduced by $7,171,000 in 1971 primarily as a result of converting certain notes payable to Occidental Petroleum Corporation and its subsidiary into common shares.

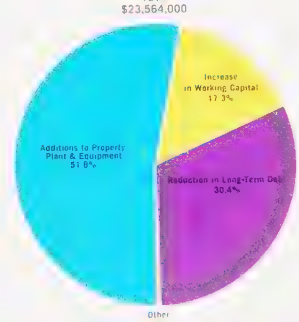
FUNDS PROVIDED
1971
$23,564,000



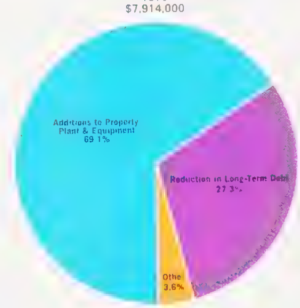
1970
$7,914,000



FUNDS USED
1971
$23,564,000



1970
$7,914,000



FIVE YEAR STATISTICAL REVIEW

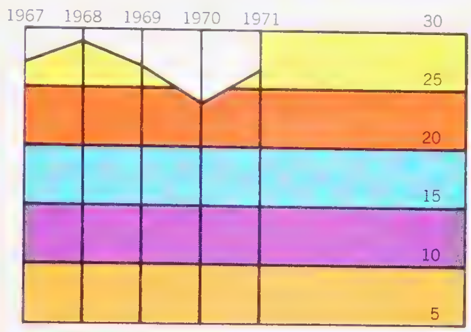
	1971	1970	1969	1968	1967
FINANCIAL (1)					
Revenues	$26,713	$23,854	$26,987	$29,051	$27,146
Net income (2)	$ 3,517	$ 2,087	$ 4,691	$ 5,061	$ 5,537
Per share (3)	$ .58	$ .38	$ .86	$ .93	$ 1.06
Cash income	$ 8,357	$ 5,916	$ 7,828	$ 8,116	$ 7,424
Per share (3)	$ 1.37	$ 1.08	$ 1.44	$ 1.50	$ 1.42
Working capital	$12,518	$ 8,442	$ 9,876	$11,126	$14,508
Additions to property, plant and equipment	$12,213	$ 5,467	$ 6,428	$ 4,790	$ 9,542
Long-term debt	$ 200	$ 7,371	$ 8,778	$11,915	$17,309
Shareholders' equity	$64,160	$46,762	$44,917	$40,757	$37,082
OPERATING					
Proven reserves					
Pipeline gas (billions of cubic feet)	293	307	341	353	359
Crude oil and natural gas liquids (thousands of barrels)	7,934	7,340	7,590	7,390	8,210
Sulphur (thousands of long-tons)	3,488	3,832	4,003	4,079	4,215
Gross production					
Pipeline gas (billions of cubic feet)	19.2	18.4	17.6	17.5	12.9
Crude oil and natural gas liquids (thousands of barrels)	692.8	601.5	405.5	395.6	332.6
Sulphur (thousands of long-tons)	257.2	265.6	269.2	275.8	218.2
Well data					
Net wells — gas	23.0	19.1	16.5	16.9	17.1
Net wells — oil	21.0	12.5	16.1	3.0	7.9
Land holdings					
Gross acres (thousands of acres)	8,013.0	6,638.7	8,600.1	5,703.9	3,914.9
Net acres (thousands of acres)	6,022.7	2,579.4	3,309.5	2,020.6	1,187.7

(1) The reported amounts represent the combined results of Jefferson Lake Petrochemicals of Canada Ltd. and the chemical operations conducted by Canadian subsidiaries of Occidental Petroleum Corporation. Dollar amounts are in thousands, except the per share data.

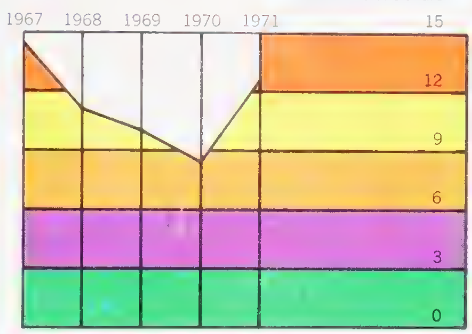
(2) Includes an extraordinary write-off in 1971 of $253,000 or 4 cents per share. For details refer to consolidated statements of income.

(3) Per share amounts are based on the weighted average number of shares outstanding during each year after retroactively including 2,772,727 shares issued in connection with the pooling of interests of the chemical operations and Jefferson Lake Petrochemicals of Canada Ltd.

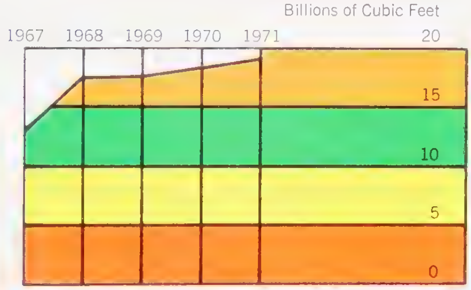
GROSS REVENUES
Millions of Dollars



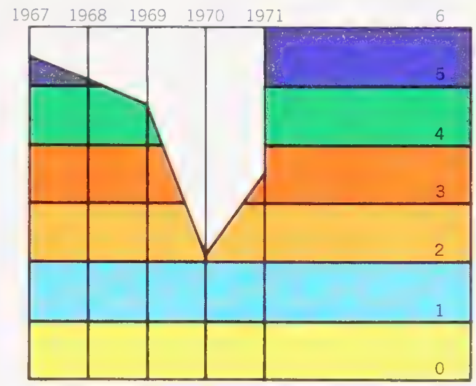
WORKING CAPITAL
Millions of Dollars



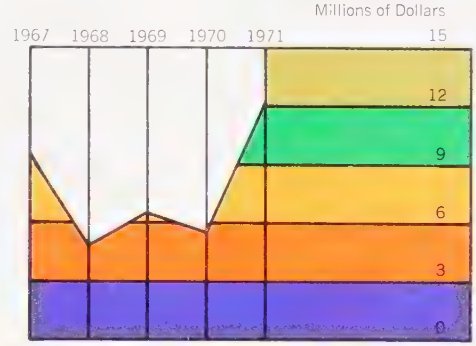
PIPELINE GAS PRODUCTION
Billions of Cubic Feet



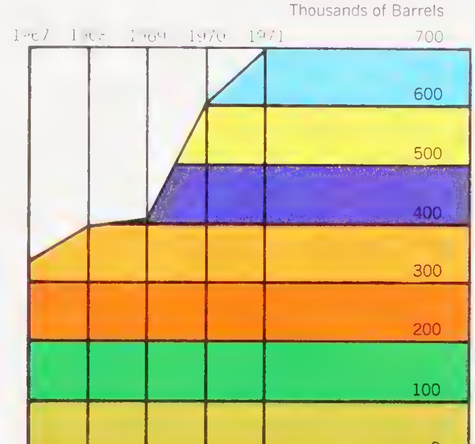
NET INCOME
Millions of Dollars



ADDITIONS TO PROPERTY
PLANT AND EQUIPMENT
Millions of Dollars



PRODUCTION OF CRUDE OIL
AND NATURAL GAS LIQUIDS
Thousands of Barrels



CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years ended December 31, 1971 and 1970

	1971	1970
	(Amounts in Thousands)	
REVENUES (Notes 1 and 9):		
Net sales and other revenues	$26,454	$23,545
Interest	259	309
	$26,713	$23,854
COSTS AND EXPENSES (Notes 9 and 10):		
Cost of products sold (Note 3)	$19,189	$17,810
Selling expenses	737	728
General and administrative expenses	1,186	1,215
Interest on long-term debt	230	467
Reorganization expenses (Note 1)	154	—
Other expenses	55	(27)
	$21,551	$20,193
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	$ 5,162	$ 3,661
PROVISION FOR INCOME TAXES (Note 6)	1,392	1,574
INCOME BEFORE EXTRAORDINARY ITEMS (Note 1)	$ 3,770	$ 2,087
EXTRAORDINARY ITEMS:		
Exchange gain on conversion of long-term debt (Note 5)	$ 241	$ —
Loss on sale of Coleman Plant	(494)	—
	$ (253)	$ —
NET INCOME (Notes 1, 3 and 6)	$ 3,517	$ 2,087
EARNINGS PER SHARE (Based on the weighted average number of shares outstanding, 1971 – 6,104,660 shares; 1970 – 5,456,436 shares)		
Income before extraordinary items	$ .62	$ .38
Extraordinary items	(.04)	—
Net income	$ .58	$ .38
Net income, assuming equity accounting for investments (Note 3)	$ .55	$ .53

The accompanying notes are an integral part of these statements.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years ended December 31, 1971 and 1970

	1971	1970
	(Amounts in Thousands)	
FUNDS WERE PROVIDED BY:		
Net income (Notes 3 and 6)	$ 3,517	$ 2,087
Add – Items not requiring the outlay of cash		
Depreciation, depletion and amortization (Note 4)	4,207	3,378
Deferred income taxes (Note 6)	116	616
Other non-cash items	517	(165)
	$ 8,357	$ 5,916
Proceeds from common stock issued	14,255	–
Proceeds on sale of property, plant and equipment	950	266
Loan from Ontario Development Corporation (Note 5)	–	250
Other	2	48
	$23,564	$ 6,480
FUNDS WERE USED FOR:		
Additions to property, plant and equipment –		
Acquisition of Occidental's Canadian oil and gas properties	$ 7,000	$ –
Other capital and exploration expenditures	5,213	5,467
Reduction in long-term debt (Note 5)	7,171	2,157
Other	104	290
	$19,488	$ 7,914
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,076	$ (1,434)
INCREASE (DECREASE) IN WORKING CAPITAL REPRESENTED BY:		
Increase (Decrease) in Current Assets –		
Cash and marketable securities	$ 1,990	$ (2,770)
Accounts receivable	–	20
Inventories	53	783
Prepaid expenses	45	(13)
	$ 2,088	$ (1,980)
Increase (Decrease) in Current Liabilities –		
Occidental Petroleum Corporation and subsidiaries	$ (207)	$ 149
Accounts payable and accrued liabilities	(578)	(550)
Income taxes payable	–	(1,095)
Current portion of long-term debt	(1,203)	950
	$(1,988)	$ (546)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,076	$ (1,434)

The accompanying notes are an integral part of these statements.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 1971 AND 1970

ASSETS

	1971	1970
	(Amounts in Thousands)	
CURRENT ASSETS:		
Cash, including deposit receipts of $3,610 in 1971 and $926 in 1970	$ 4,548	$ 1,861
Marketable securities, at cost which approximates market	386	1,083
Accounts receivable –		
Trade	3,015	3,050
Joint ventures and participants	781	1,025
Occidental Petroleum Corporation and Subsidiaries	485	–
Income taxes recoverable	49	318
Other	667	604
Inventories (Notes 2 and 3)	4,097	4,044
Prepaid expenses	158	113
Total current assets	$14,186	$12,098
INVESTMENTS AND ADVANCES:		
Petrogas Processing Ltd. (Note 3)	$ 1,607	$ 1,607
Other (Note 10)	226	228
	$ 1,833	$ 1,835
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 4)	$78,110	$67,623
Less – Accumulated depreciation and depletion	23,440	19,527
	$54,670	$48,096
OTHER ASSETS:		
Pre-operating and project development costs being amortized over ten years	$ 203	$ 214
Debt discount, and financing costs, less amortization of $214 (Note 5)	–	389
Other	113	18
	$ 316	$ 621
	$71,005	$62,650

The accompanying notes are an integral part of these balance sheets.

CANADIAN OCCIDENTAL PETROLEUM LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 1971 AND 1970

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970
	(Amounts in Thousands)	
CURRENT LIABILITIES:		
Occidental Petroleum Corporation and Subsidiaries – 8% demand note	$ 233	$ 233
Trade	–	207
Accounts payable	1,060	1,573
Accrued liabilities	350	415
Current portion of long-term debt	25	1,228
Total current liabilities	$ 1,668	$ 3,656
LONG-TERM DEBT, less current portion (Note 5)	$ 200	$ 7,371
DEFERRED INCOME TAXES (Note 6)	$ 4,977	$ 4,861
CONTINGENT LIABILITY (Note 7)		
SHAREHOLDERS' EQUITY:		
Common shares, $1 par value; authorized 15,000,000 shares; outstanding 6,752,241 in 1971 and 5,456,436 in 1970 (Note 8)	$ 6,752	$ 5,456
Capital in excess of par value	33,786	21,196
Series B share purchase warrants (Note 8)	–	5
Retained earnings (Notes 3 and 6)	23,622	20,105
	$64,160	$46,762
	$71,005	$62,650

APPROVED ON BEHALF OF THE BOARD:

Robert A. Teitsworth

ROBERT A. TEITSWORTH, Director

David B. Chalmers

DAVID B. CHALMERS, Director

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years ended December 31, 1971 and 1970

	Common Shares Par Value of $1	Capital In Excess Of Par Value	Series B Share Purchase Warrants	Retained Earnings (Notes 3 and 6)
	(Amounts in Thousands)			
BALANCES, DECEMBER 31, 1969, as previously reported:				
Jefferson Lake Petrochemicals of Canada Ltd.	$2,683	$18,186	$ 5	$ 6,793
Amounts applicable to chemical companies (Note 1)	2,773	3,010	–	11,225
BALANCES, DECEMBER 31, 1969, as restated	$5,456	$21,196	$ 5	$18,018
Net Income	–	–	–	2,087
BALANCES, DECEMBER 31, 1970	$5,456	$21,196	$ 5	$20,105
Common shares issued in payment for Occidental Petroleum Corporation's Canadian oil and gas properties	636	6,364	–	–
Common shares issued on conversion of long-term debt by Occidental Petroleum Corporation and Subsidiaries (Note 5)	658	6,578	–	–
Debt discount, and financing costs being amortized over the life of the long-term debt converted (Note 5)	–	(375)	–	–
Common shares issued on conversion of Series B share purchase warrants and exercise of employee stock options	2	18	–	–
Series B share purchase warrants – expired June 1, 1971	–	5	(5)	–
Net Income	–	–	–	3,517
BALANCES, DECEMBER 31, 1971	$6,752	$33,786	$ –	$23,622

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971 and 1970

1. Principles of Consolidation and Reorganization

The consolidated financial statements are expressed in thousands of Canadian dollars and include the accounts of Canadian Occidental Petroleum Ltd. and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

Canadian Occidental Petroleum Ltd. was formed July 12, 1971, as a result of the statutory amalgamation of Jefferson Lake Petrochemicals of Canada Ltd. ("JLP") and New Hooker Canada Limited ("Newco"). The amalgamation was part of a plan of reorganization to combine certain chemical operations conducted by Canadian subsidiaries of Occidental Petroleum Corporation ("Occidental") with JLP. The plan was approved at a special general meeting of the shareholders of JLP held June 28, 1971.

JLP was engaged in Canada in the production and processing of petroleum, natural gas and sulphur and the exploration and drilling for oil and gas.

The chemical operations were carried on by Hooker Chemicals Limited ("HCL"), Hooker Chemicals (Nanaimo) Limited ("HCN") and Hooker Parker (Canada) Limited ("Parker"). They included the manufacture and marketing of chlorine and caustic soda, phenolic resins and molding compounds and metal-treating chemicals, lubricants and rinses.

According to the plan of reorganization, the operations of HCL, HCN and Parker were transferred to Newco which was then amalgamated with JLP.

The transactions were accounted for as a pooling of interests, at net book value.

Immediately following the amalgamation, Canadian Occidental Petroleum Ltd. issued common shares to acquire the Canadian oil and gas properties of Occidental at their fair market value of $7,000,000 and to convert two notes payable to Occidental having unpaid principal balances plus accrued interest aggregating $7,200,000.

Revenues, income before extraordinary items, and net income have been restated for the years ended December 31, 1971 and 1970 to give effect to the business combination of JLP "Oil and Gas" and Newco "Chemicals".

	1971			1970		
	Oil and Gas	Chemicals	Total	Oil and Gas	Chemicals	Total
			(Amounts in Thousands)			
Revenues	$5,747	$20,966	$26,713	$6,023	$17,831	$23,854
Income Before Extraordinary Items	$ 330	$ 3,440	$ 3,770	$ 372	$ 1,715	$ 2,087
Net Income	$ 77	$ 3,440	$ 3,517	$ 372	$ 1,715	$ 2,087

The chemical operations of Canadian Occidental Petroleum Ltd. have six major customers. Sales to these customers are under contracts that expire at various dates up to 1979. In the years ended December 31, 1971 and 1970, sales to these major customers accounted for 59% and 68%, respectively, of the total revenues from the chemical operations.

For the purposes of meeting the requirements of Section 126.17 and Regulation 81 of the Ontario Securities Act, the amalgamated company is considered to be the acquirer of the amalgamating companies and the acquisition equation is as follows:

	(Amounts in Thousands)
Net assets at book value of amalgamating companies	$48,186
On pooling of interests - excess consideration over net assets at book value	11,830
Shares issued by amalgamated company - 5,456,436 shares at $11 each	$60,016
(Quoted market value July 12, 1971 - $10⅝)	

2. Inventories

Inventories are stated at the lower of cost (average or first-in, first-out) or market.

	1971	1970
	(Amounts In Thousands)	
Finished products	$2,720	$2,434
Tubular goods and field supplies	153	255
Work-in process, raw materials and manufacturing supplies	1,224	1,355
	$4,097	$4,044

3. Petrogas Processing Ltd.

Petrogas Processing Ltd., a joint venture company, was incorporated by the working interest owners in the Calgary field to construct and own the plant and field facilities necessary to process field gas for the recovery of pipeline gas, condensate, liquefied petroleum gases and elemental sulphur. The costs incurred by Petrogas in processing the gas is recovered through a service charge to the working interest owners. Canadian Occidental Petroleum Ltd. allocates its share of this service charge to sulphur recovered and natural gas sold.

Canadian Occidental Petroleum Ltd. is the operator of the plant and field facilities and owns 30.9% of Petrogas Processing Ltd. The investment in Petrogas is carried at cost and as at December 31, 1971 and 1970, the amount comprised $309,000 in common shares and $1,298,000 in subordinate debentures due 1987.

Effective 1972, the accounting profession proposes that the equity accounting method would be more appropriate for recording such an investment. If this method had been applied retroactively, the reported figure for the investment in Petrogas would be increased by $3,043,000 in 1971 ($3,154,000 in 1970), sulphur inventory would be decreased by $466,000 in 1971 ($350,000 in 1970) and the 1971 net income would be reduced by $227,000 or 3¢ per share (increased by $806,000 or 15¢ per share in 1970).

4. Property, Plant and Equipment

	1971		1970	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(Amounts in Thousands)			
Chemical plants and equipment	$33,658	$14,040	$33,058	$12,257
Sulphur extraction plants and equipment	2,351	1,166	3,808	1,227
Oil and gas properties -				
Leasehold interests, contract rights, development and exploration costs	40,224	7,848	29,171	5,750
Well, lease and other equipment	1,877	386	1,586	293
	$78,110	$23,440	$67,623	$19,527

All costs and expenses of acquiring, exploring for and developing oil, gas and sulphur reserves are capitalized, including preproduction expenses, lease facilities and costs of non-producing properties. Provision for depreciation and depletion of the aggregate unrecovered portion of these costs has been computed on the basis of the ratio of the aggregate oil and gas production to the aggregate estimated recoverable oil and gas reserves.

Depreciation of chemical and sulphur plants and related equipment is provided on the straight-line basis using estimated useful lives.

In 1970, depreciation of the sulphur plants was provided on the unit of production method based on total recoverable reserves of sulphur. The change in the sulphur plant depreciation method had an immaterial effect on 1971 income.

The original cost and accumulated depreciation for sulphur and chemical plant assets and related equipment sold or disposed of are cleared from the accounts and any resulting profit or loss, after considering salvage value or proceeds from sale, is carried to profit and loss accounts. Maintenance and repairs are charged to income as incurred. Major renewals and betterments are capitalized.

5. Long-Term Debt

	1971	1970
	(Amounts In Thousands)	
Non-interest-bearing loan from Ontario Development Corporation .	$ 225	$ 250
4½% and 6% Notes payable to Occidental Petroleum Corporation and Subsidiaries	–	8,347
5¼% Mortgage, repayable to February 1972	–	2
	$ 225	$8,599
Less current portion	25	1,228
	$ 200	$7,371

The Ontario Development Corporation loan is forgivable at the rate of $25,000 per year to 1976. In 1976 the entire balance may be forgiven provided that the subsidiary has continuously carried on the business of manufacturing chemicals at its plant in Fort Erie, Ontario, in a manner satisfactory to the Ontario Development Corporation.

The 4½% and 6% notes payable to Occidental Petroleum Corporation were converted into common shares of Canadian Occidental Petroleum Ltd. on July 12, 1971 and the remainder of the unamortized debt discount and financing costs of $375,000, previously being amortized over the life of the 4½% notes, was charged to Capital in Excess of Par Value.

Under the terms of notes issued by Occidental Petroleum Corporation, there are restrictions on the ability of Canadian Occidental Petroleum Ltd. to incur certain types of funded debt. The debt at December 31, 1971 and 1970 did not contravene those restrictions.

6. Income Taxes

Drilling, exploration and lease acquisition costs may be deducted for tax purposes in amounts which may exceed the related depletion provided in the accounts. As a result, no income taxes were paid for the years ended December 31, 1971 and 1970, by Canadian Occidental Petroleum Ltd. or Jefferson Lake Petrochemicals of Canada Ltd.

As of December 31, 1971, approximately $7,100,000 of drilling, exploration and lease acquisition costs remain to be applied against future taxable income.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting whereby the income tax provision is based on the income reported in the accounts. Management, however, does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs. This view conforms with general practice in the Canadian oil and gas industry.

If the tax allocation basis had been followed for such timing differences between taxable income and reported income, the deferred income tax provisions would have been $1,135,000 for 1971 and $220,000 for 1970. The accumulated income tax reductions, not recorded in the accounts, aggregated approximately $8,000,000 as of December 31, 1971.

Depreciation claimed for tax purposes is greater than the depreciation recorded in the accounts and the deferred income taxes have been charged against income and credited to Deferred Income Taxes.

The taxes thus deferred were $116,000 in 1971 and $616,000 in 1970. The accumulated deferred taxes as of December 31, 1971 arising from depreciation timing differences is $4,977,000.

7. Contingent Liability

Canadian Occidental Petroleum Ltd. may be required under certain conditions to make payments under guarantee arrangements in connection with the issuing of non-interest-bearing, demand promissory notes deposited with the Federal or Provincial governments. The notes are held as work performance deposits in respect of exploratory rights.

The contingent liability under such arrangements does not exceed $407,000.

8. Capital Stock and Stock Options

Under the stock option plan, options granted to certain officers and employees are contingent upon continued employment and are exercisable on a cumulative basis over a period of five years from the date of grant. Options granted by Jefferson Lake Petrochemicals of Canada Ltd. and outstanding at the time of the amalgamation have been assumed by Canadian Occidental Petroleum Ltd.

At December 31, 1971, 15,294 shares were reserved for issuance under outstanding options at prices of $10.13 and $11.13 per share. During 1971, no further options were granted; options for 4,260 shares became exercisable at $10.13 and $11.13 per share, and options for 440 shares were exercised at $11.13 per share.

Series "B" warrants to purchase 96,933 shares were outstanding at December 31, 1970. In 1971, warrants to purchase 1,272 shares were exercised and the remaining warrants expired on June 1, 1971.

9. Inter-Company Transactions

Occidental Petroleum Corporation and subsidiaries render advisory and counselling services to the Company and its subsidiaries consisting primarily of technical, research, administrative and marketing services. The cost of these services amounted to $670,000 in 1971 and $552,000 in 1970.

In addition, the chemical operations of the Company periodically purchase materials from and sell materials to Hooker Chemical Corporation (a subsidiary of Occidental Petroleum Corporation). During 1971, purchases amounted to $1,537,000 compared with $1,670,000 in 1970 and sales were $2,259,000 in 1971 and $912,000 in 1970. These purchases and sales were at competitive prices.

10. Directors and Officers

	1971	1970
Number of directors (including past directors)	13	13
Remuneration as directors	$ 12,000	$ 9,000
Number of officers	10	10
Remuneration as officers	$223,000	$217,000
Number of officers who are directors	2	2

Included in other investments are advances to an officer under the executive stock-purchase plan. The advances are evidenced by 5% promissory notes ($86,000 due December 1973 and $20,000 due May 1975) which are collateralized by 5,000 shares of Canadian Occidental Petroleum Ltd. The sole remedy for non-payment is foreclosure on the collateral; no deficiency judgment being recoverable. The quoted market value of the collateral at February 10, 1972 approximated $50,000.

11. Subsequent Event

On February 1, 1972, Canadian Occidental Petroleum Ltd. purchased the assets (primarily mining claims) of Occidental Minerals Corporation of Canada (a wholly-owned subsidiary of Occidental Petroleum Corporation) for $240,555.

AUDITORS' REPORT

To the Shareholders of Canadian Occidental Petroleum Ltd.:

We have examined the consolidated balance sheet of Canadian Occidental Petroleum Ltd. (a Canada corporation and a subsidiary of Occidental Petroleum Corporation) and subsidiaries as of December 31, 1971, and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Canadian Occidental Petroleum Ltd. and subsidiaries as of December 31, 1971, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As discussed in Note 1 to the consolidated financial statements, a reorganization occurred during 1971 that was accounted for as a pooling of interests. For the year ended December 31, 1970, the consolidated financial statements of Canadian Occidental Petroleum Ltd. represent combinations of the financial statements of Jefferson Lake Petrochemicals of Canada Ltd. and certain subsidiaries of Occidental Petroleum Corporation. The financial statements of Jefferson Lake Petrochemicals of Canada Ltd., which represent approximately 54% of the consolidated assets, 25% of the consolidated revenue and 2% of consolidated net income, were examined by other chartered accountants. In our opinion, the amounts included in the consolidated financial statements of Canadian Occidental Petroleum Ltd. and subsidiaries for the year ended December 31, 1970, have been properly compiled from the amounts in the underlying statements.

Calgary, Canada.
February 10, 1972.

ARTHUR ANDERSEN & CO.
Chartered Accountants.

HEAD OFFICE

1000 Calgary House
550 Sixth Avenue Southwest
Calgary 1, Alberta, Canada

KEY PERSONNEL

Head Office
R. S. Blackett, Mgr. Economics & Planning
W. W. Chalmers, Mgr. Plant Operations
D. F. Christensen, Mgr. Exploration
G. S. Horne, Mgr. Production
J. Meronek, Purchasing Agent
C. R. Mikkelborg, Mgr. Land
C. K. Stackhouse, Mgr. Personnel

Hooker Chemicals Division
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L. H. Schnurstein, Vice-President & Works Manager
J. J. McLaughlin, Vice-President & Sales Manager
N. R. Richards, Controller

Minerals Division
Suite 801,
161 Eglinton Avenue, East,
Toronto, Ontario.
Dr. J. J. Brummer, Manager

Peace River Plant
Taylor, British Columbia
J. Shaw, Plant Superintendent

TRANSFER AGENTS

National Trust Company, Limited
Calgary, Toronto, Montreal,
Winnipeg and Vancouver

The First National City Bank
New York, N.Y.

REGISTRARS

National Trust Company, Limited
Calgary, Alberta

The Chase Manhattan Bank
New York, N.Y.

AUDITORS

Arthur Andersen & Co.
Calgary, Alberta, Canada

SHARES LISTED

American Stock Exchange
Toronto Stock Exchange

SUBSIDIARY COMPANIES

Oxy Metal Finishing of Canada Ltd.
Plant and Head Office
165 Rexdale Boulevard,
Rexdale, Ontario
R. I. Peterson - Vice-President & General Mgr.

Hooker Chemicals (Nanaimo) Limited
Chlor-alkali plant
Nanaimo, British Columbia
C. N. Hopkins - Works Mgr.

Plastics plant
Dunlop Street, Fort Erie, Ontario
Richard J. Malis - Works Mgr.
A. W. Wandschneider - Sales Mgr.

Jefferson Minerals Corporation
Calgary, Alberta

AFFILIATED COMPANY

Petrogas Processing Ltd.
Balzac, Alberta
R. S. Geddes, Plant Superintendent

SULPHUR-SALES AGENTS

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Houston, Texas 77027
Cable Address "Jefflake"

Export

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